Mangel Stores

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CORPORATION FILE

CORPORATION

ANNUAL REPORT

1966

HIGHLIGHTS

INCOME DATA	1966	1965
Net Sales, Including Income from Leased Departments	$99,214,954	$92,995,050
Net Income/(Loss) before Federal Income Taxes	1,507,601	(2,547)
Federal Income Taxes — Net	420,000	261,000
Net Income/(Loss)	1,087,601	(263,547)
Special Items — Credit	13,689	160,280
Net Income/(Loss) and Special Items	1,101,290	(103,267)
Dividends Paid in Cash	75,492	217,883
Dividends Paid in Common Stock	205,716	360,607
Number of Stores and Leased Department Locations	157	164

BALANCE SHEET DATA		
Current Assets	$27,514,879	$22,616,333
Current Liabilities	11,712,443	7,134,077
Net Working Capital	15,802,436	15,482,256
Current Ratio	2.3	3.1
Accounts Receivable — Net	$ 7,024,533	$ 5,178,013
Merchandise Inventories	16,384,279	13,558,696
Fixed Assets — Net	11,534,258	11,740,621
Long-Term Debt	11,196,406	12,194,140
Stockholders' Equity	17,273,688	16,246,623

PER SHARE DATA		
Net Income/(Loss)	$ 1.43	($.36)
Special Items — Credit	.02	.22
Net Income/(Loss) and Special Items	1.45	(.14)
Dividends Paid in Cash	.10	.30
Dividends Paid in Common Stock	2%	4%
Book Value	22.43	21.52

TO OUR SHAREHOLDERS:

In my letter to our shareholders last year, written shortly after I assumed the office of President and Chief Operating Officer of the Company, I stated that "we have instituted a new and comprehensive program which . . . will result, we are confident, in a complete turnabout of the Company's current and future operation."

I am happy to report now that last year's expectations have become this year's realities. Despite the fact that fewer stores were in operation this year, the fiscal period just ended produced record sales of $99,214,954 and the operational loss of last year has been turned to a net income of $1,101,290 this year.

The major program of improving personnel, organization and the raising of all standards continues to be aggressively pursued and all indications for the current fiscal year are that the upward trend in sales and earnings continues to gather momentum.

Four new Shoppers Fair Discount stores are presently in various stages of construction and are planned for opening during the current year. These new installations, as well as our program of improving the productivity of existing units, should substantially increase our volume of sales with resulting profits during the current year. We will continue to close unprofitable stores wherever possible.

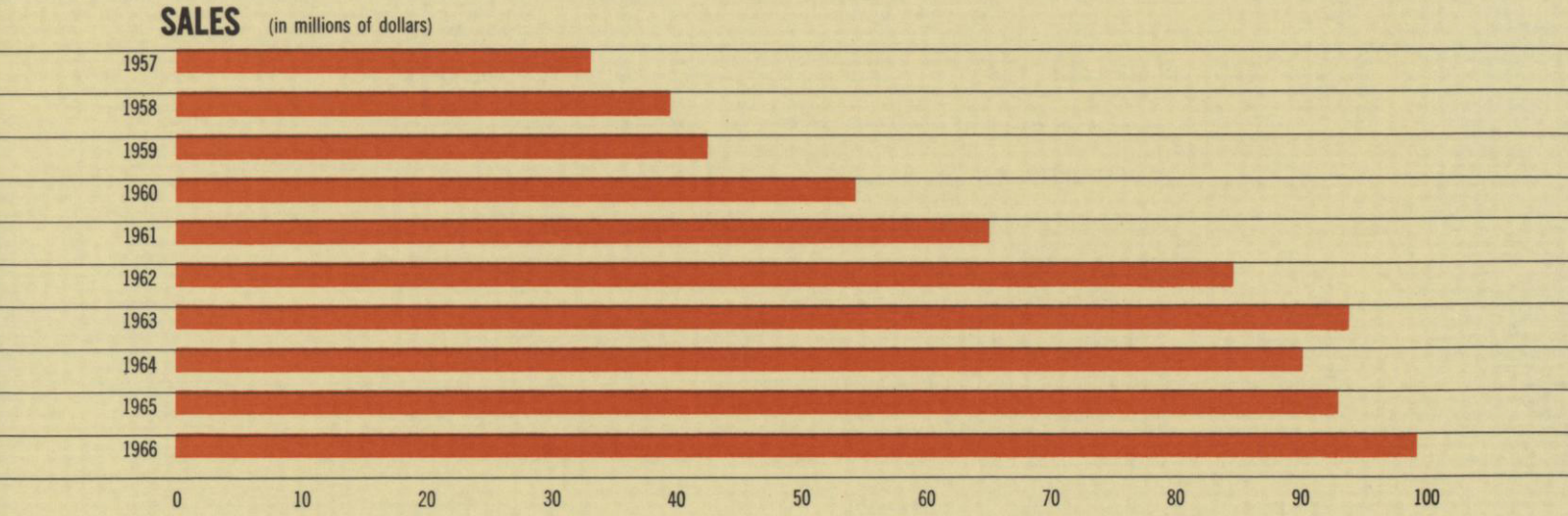
The results of the fiscal year just ended may be summarized as follows:

SALES

Net sales (owned sales) including income from leased departments amounted to $99,214,954, an increase of $6,219,904, or 6.7% over the previous year's $92,995,050. Total sales including leased departments amounted to $118,864,663 this year as compared with $111,776,103 last year.

EARNINGS

Net income and special item for the current fiscal year amounted to $1,101,290, or $1.45 per share. This compares with a loss last year of $103,267 after a special credit of $160,280. Adding depreciation and amortization of $1,244,531 to $1,101,290, the cash flow was $2,345,821 or $3.10 per share compared with $1.59 per share last year.



FINANCIAL CONDITION

Our strong financial condition continues as shown by the Consolidated Balance Sheet on pages 8 and 9. The changes in working capital are accounted for as follows:

Additions to Working Capital:	
Net income and special item for the year	$1,101,290
Depreciation and amortization not requiring cash outlay	1,244,531
Total	2,345,821
Deductions from Working Capital:	
Decrease in long-term debt	997,734
Cash dividends	75,492
Purchase of fixed assets — net	890,920
Other — net	61,495
Total	2,025,641
Increase in Working Capital	$ 320,180

DIVIDENDS

A cash dividend of 10¢ per share and a stock dividend of 2% were paid on December 15, 1965 and a similar cash dividend was paid on March 15, 1966. It is the intention of the Company to continue the payment of cash dividends as warranted by continued earnings, and consistent with the requirements of the Company.

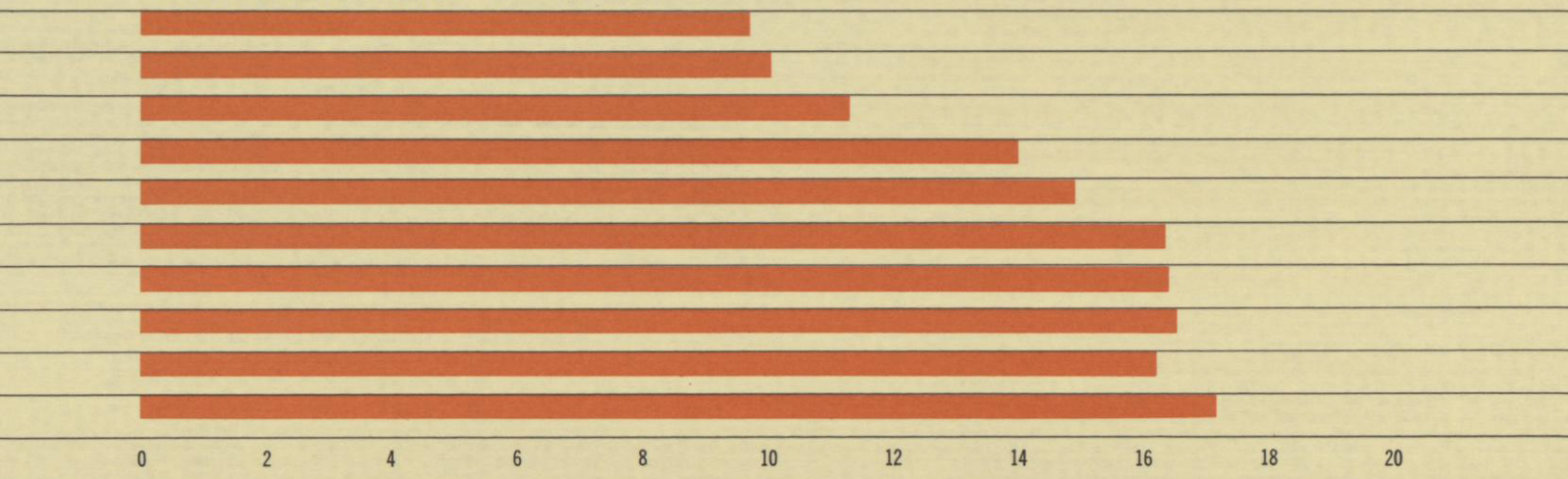
GENERAL

Your Board of Directors and Officers gratefully acknowledge the loyal support we have received from our employees, shareholders and suppliers in the continued success of our business.

May 2, 1966

President

SHAREHOLDERS' EQUITY (in millions of dollars)



The "New Look" of our Tulsa Shopper's Fair Store. Enlarged and extensively remodeled, it was completed March 23rd. Other stores are currently undergoing the same type of expansion and refurbishing program.

JEWELRY

Boys

Mens

TEN YEAR SUMMARY OF PROGRESS

FISCAL YEARS ENDED (APPROXIMATELY) JANUARY 31

INCOME DATA	**1966**	**1965**	**1964**
Net Sales, Including Income from Leased Departments	$99,214,954	$92,995,050	$90,240,174
Net Income/(Loss) before Federal Income Taxes	1,507,601	(2,547)	1,718,661
Federal Income Taxes — Net	420,000	261,000	717,000
Net Income/(Loss)	1,087,601	(263,547)	1,001,661
Special Items — Credit (Charge)	13,689	160,280	....
Net Income/(Loss) and Special Items	1,101,290	(103,267)	1,001,661
Dividends Paid in Cash	75,492	217,883	871,590
Dividends Paid in Common Stock	205,716	360,607	....
Number of Stores and Leased Department Locations	157	164	164
BALANCE SHEET DATA			
Current Assets	$27,514,879	$22,616,333	$22,991,649
Current Liabilities	11,712,443	7,134,077	6,990,734
Net Working Capital	15,802,436	15,482,256	16,000,915
Current Ratio	2.3	3.1	3.3
Accounts Receivable — Net	$ 7,024,533	$ 5,178,013	$ 4,735,326
Merchandise Inventories	16,384,279	13,558,696	15,858,721
Fixed Assets — Net	11,534,258	11,740,621	12,026,100
Long-Term Debt	11,196,406	12,194,140	12,967,054
Stockholders' Equity	17,273,688	16,246,623	16,577,101
PER SHARE DATA *(1957 adjusted for 100% stock distribution made on 5/28/57)*			
Net Income/(Loss)*	$ 1.43	($ .36)	$ 1.37
Special Items — Credit (Charge)*	.02	.22	....
Net Income/(Loss) and Special Items*	1.45	(.14)	1.37
Dividends Paid in Cash	.10	.30	1.20
Dividends Paid in Common Stock	2%	4%	....
Book Value	22.43	21.52	22.82

**Based on average number of shares outstanding; not adjusted for stock dividends in 1965 and 1966.*

Figures for the years prior to 1966 have been revised to include previously unconsolidated real estate subsidiaries in conformity with the principles of consolidation adopted for 1966.

MANGEL STORES CORPORATION *AND SUBSIDIARIES*

1963	1962	1961	1960	1959	1958	1957
$93,907,125	$84,664,098	$65,096,448	$54,334,304	$42,654,510	$39,529,035	$33,177,700
1,463,767	2,314,523	2,237,379	2,570,353	1,797,366	1,719,033	2,000,260
577,030	837,908	833,000	977,000	655,000	670,000	725,000
886,737	1,476,615	1,404,379	1,593,353	1,142,366	1,049,033	1,275,260
....	127,587	....	....	....	(160,249)	(148,702)
886,737	1,604,202	1,404,379	1,593,353	1,142,366	888,784	1,126,558
870,992	850,830	822,906	754,836	610,485	581,638	505,574
....	....	....	....	....	....	....
167	162	132	126	125	123	125
$21,496,514	$19,251,066	$14,596,020	$13,181,906	$11,908,692	$ 9,948,791	$ 9,181,858
5,213,402	6,358,555	3,882,771	3,568,957	2,098,871	3,055,580	2,071,628
16,283,112	12,892,511	10,713,249	9,612,949	9,809,821	6,893,211	7,110,230
4.1	3.0	3.8	3.7	5.7	3.3	4.4
$ 4,212,776	$ 2,793,528	$ 2,964,310	$ 3,277,502	$ 2,776,514	$ 2,796,598	$ 3,276,348
13,101,138	11,384,452	7,393,154	5,799,507	5,169,587	3,969,138	3,628,380
12,323,977	11,288,156	10,174,228	8,652,340	7,947,776	7,759,988	7,213,475
13,684,635	8,944,040	6,827,390	4,982,675	6,961,301	5,259,649	4,701,579
16,445,736	16,389,968	14,930,984	14,020,446	11,357,859	10,078,219	9,763,895
$ 1.22	$ 2.04	$ 2.04	$ 2.53	$ 2.24	$ 2.07	$ 2.52
....	.18	....	....	....	(.32)	(.30)
1.22	2.22	2.04	2.53	2.24	1.75	2.22
1.20	1.20	1.20	1.20	1.20	1.15	1.00
....	....	....	....	....	....	....
22.64	22.63	21.54	20.86	20.47	19.92	19.31

CONSOLIDATED BALANCE SHEET

AS AT JANUARY 29, 1966 — JANUARY 30, 1965

ASSETS	1966	1965
CURRENT ASSETS:		
Cash	$ 2,641,964	$ 2,485,430
Short-term investment — at cost, plus amortized discount	980,472	997,250
Accounts receivable — trade, less reserves for doubtful accounts of $458,206 and $412,630, respectively, and unearned service charges of $62,347 and $76,757, respectively	7,024,533	5,178,013
Miscellaneous receivables	483,631	396,944
Merchandise inventory — at the lower of cost or market, based upon the retail method of inventory valuation	16,384,279	13,558,696
TOTAL CURRENT ASSETS	27,514,879	22,616,333
OTHER ASSETS (including estimated refunds of Federal income taxes of $476,484 and $503,696, respectively)	758,229	822,295
FIXED ASSETS — at cost:		
Real estate, subject in part to mortgages — per contra:		
Land	1,325,475	1,325,475
Buildings — less reserve for depreciation of $1,166,080 and $976,997, respectively	3,210,402	3,263,236
	4,535,877	4,588,711
Furniture, fixtures, equipment and leasehold improvements, less reserves for depreciation and amortization aggregating $5,471,948 and $5,319,183, respectively, partly pledged — contra	6,998,381	7,151,910
	11,534,258	11,740,621
DEFERRED CHARGES:		
Insurance	161,932	166,795
Taxes, expenses, etc.	327,838	307,955
	489,770	474,750
GOODWILL	1	1
	$40,297,137	$35,654,000

The accompanying notes are an integral part of this statement.

MANGEL STORES CORPORATION *AND SUBSIDIARIES*

LIABILITIES	**1966**	**1965**
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 982,993	$ 772,098
Accounts payable — merchandise, less discounts	7,653,726	3,934,784
Accounts payable — expenses, taxes, etc.	2,305,928	1,752,627
Customers' deposits on layaways and credits	125,101	97,575
Reserve for Federal income taxes — Note B	644,695	576,993
TOTAL CURRENT LIABILITIES	11,712,443	7,134,077
LONG-TERM DEBT, less current portion:		
5.80% Note payable — insurance company — Note C	8,250,000	9,000,000
4% to 6% Mortgages payable in installments to 1982 (collateralized by real estate — per contra — and by certain leases)	2,890,339	3,035,793
Notes payable — bank		13,889
Payable (including finance charges) for purchases of equipment, collateralized by the related equipment	56,067	144,458
	11,196,406	12,194,140
OTHER LIABILITIES	114,600	79,160
TOTAL LIABILITIES	23,023,449	19,407,377
STOCKHOLDERS' EQUITY — Notes C and E:		
Common Stock — par value $1 per share:		

	Shares			
	1966	**1965**		
Authorized	1,000,000	1,000,000		
Issued	786,946	771,847	786,946	771,847
Less: Treasury stock	16,927	17,047	16,927	17,047
Outstanding	770,019	754,800	770,019	754,800
Capital Surplus			4,412,461	4,220,697
Retained Earnings			12,091,208	11,271,126
			17,273,688	16,246,623
			$40,297,137	$35,654,000

MANGEL STORES CORPORATION *AND SUBSIDIARIES*

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

FOR THE YEAR (52 WEEKS) ENDED JANUARY 29, 1966 — JANUARY 30, 1965

	1966	1965
Net sales, including income from leased departments	$99,214,954	$92,995,050
Deduct:		
Cost of sales, including occupancy expenses	75,844,051	71,752,464
General, administrative and selling expenses, less service charges on customers accounts	20,098,112	19,283,160
Depreciation and amortization	1,244,531	1,272,980
	97,186,694	92,308,604
	2,028,260	686,446
Other deductions — net (including interest expense of $756,783 and $853,755, respectively)	520,659	688,993
Net income/(loss) before Federal income taxes	1,507,601	(2,547)
Federal income taxes — net — Note B	420,000	261,000
Net income/(loss)	1,087,601	(263,547)
Special items:		
Adjustments applicable to prior years based on examinations by Internal Revenue Service, less Federal income taxes in the amount of $158,000 and $212,000, respectively	13,689	90,059
Investment tax credits previously deferred		70,221
	13,689	160,280
Net income/(loss) and special items	1,101,290	(103,267)
Retained Earnings at the beginning of the year	11,271,126	11,952,883
	12,372,416	11,849,616
Deduct:		
Cash dividends — $.10 and $.30 per share, respectively	75,492	217,883
Stock dividends — Note E	205,716	360,607
	281,208	578,490
Retained Earnings at the end of the year — Notes C and E	$12,091,208	$11,271,126

Red figures are denoted by brackets.

The accompanying notes are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

AS AT JANUARY 29, 1966

NOTE A — *Principles of Consolidation:*

During the current year, the Company adopted the policy of including the accounts of the real estate subsidiaries in the consolidated financial statements.

The financial statements as at and for the year (52 weeks) ended January 30, 1965 are shown for comparative purposes only; such statements have been revised to include the accounts of the previously unconsolidated real estate subsidiaries. The principal effect of the revision was to eliminate the investment in and advances to real estate subsidiaries aggregating $1,334,138, to increase fixed assets (less accumulated depreciation) in the amount of $4,409,354 and to increase long-term debt in the amount of $3,035,793, exclusive of current portion of $137,041. Reference should be made to the previously issued report for the Accountants' Report and notes pertaining to those financial statements.

NOTE B — *Federal Income Taxes:*

Federal income taxes — net ($420,000), included in the accompanying consolidated statement of income and retained earnings, are computed on an individual company basis after various deductions including inter-company bad debts and applied carryover and carryback losses.

The Company's subsidiaries have unused net operating loss carryovers and unused investment tax credits which expire at various dates during the next five fiscal years, the realization of which is not presently determinable.

Consolidated Retained Earnings include undistributed earnings of subsidiaries which may be subject to Federal and state income taxes if and when distributed in the form of dividends.

The accompanying financial statements are subject to final determination of Federal, state and local taxes.

NOTE C — *5.80% Note Payable — Insurance Company:*

The 5.80% note is payable in annual installments of $750,000 through January 15, 1978. The note agreement requires, among other things, that the Company maintain consolidated working capital of not less than $14,000,000 and restricts the payment of dividends (other than stock dividends) and the purchase of the Company's capital stock. As at January 29, 1966, approximately $1,083,000 of consolidated Retained Earnings was free of these restrictions.

NOTE D — *Long-Term Leases:*

As at January 29, 1966, the minimum annual rentals on real property under leases then in force, exclusive of intercompany rentals, amounted to approximately $3,705,000, including approximately $31,000 applicable to four lessors in which certain officers and directors have interests. Approximate aggregate minimum annual rentals for leases terminating to January 31, 1975, from February 1, 1975 to January 31, 1985, and from February 1, 1985 to April 30, 2006, are $835,000, $2,381,000, and $489,000, respectively.

Certain lease agreements provide for additional rentals based upon sales or for payment of real estate taxes, insurance, etc.

NOTE E — *Stockholders' Equity:*

The 2% stock dividend aggregating $205,716 (based upon market quotations) resulted in credits to Common Stock ($15,099) and Capital Surplus ($190,617).

Options for 1300 shares which were outstanding as at January 30, 1965 under grants made in 1960 were terminated during the year.

The 1964 Qualified Stock Option Plan approved by the stockholders in 1965, authorized the granting of options for the purchase of 25,000 shares of the Company's Common Stock, at prices which are not less than fair market prices at dates of grant. Changes in the status of these options are summarized as follows:

Shares under option, beginning of year	6,000
Options granted	12,100
Options exercised	(120)
Shares under option, end of year	17,980
Shares available for option, end of year	6,900

Option prices range from $10.00 to $15.375. The Company issued 120 shares of its treasury stock for options exercised which resulted in an increase of $1,147 in Capital Surplus and a decrease of $120 in treasury stock.

ACCOUNTANTS' REPORT

To the Board of Directors
Mangel Stores Corporation
New York, N. Y.

We have examined the consolidated balance sheet of Mangel Stores Corporation and subsidiaries as at January 29, 1966, and the related consolidated statement of income and retained earnings for the year (52 weeks) then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statement of income and retained earnings, together with the notes to financial statements, present fairly the consolidated financial position of Mangel Stores Corporation and subsidiaries at January 29, 1966, and the consolidated results of their operations for the year (52 weeks) then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year after giving retroactive effect to the inclusion, which we approve, of the accounts of the previously unconsolidated real estate subsidiaries.

S. D. LEIDESDORF & CO.

New York, N. Y.
April 21, 1966

MANGEL STORES CORPORATION

DIRECTORS

HERBERT J. DEITZ
ISRAEL A. DIAMOND
PHILLIP F. FRANKEL
SAUL C. GUZY
SANFORD S. JAFFE
MAURICE N. JAFFE
GEORGE M. JAFFIN
AL KLEIN
EMANUEL MANGEL
SOL MANGEL
JARED L. ROSENTHAL
MAX WEINREICH

OFFICERS

SOL MANGEL
Chairman of the Board

JARED L. ROSENTHAL
President

PHILLIP F. FRANKEL
Executive Vice-President

ISRAEL A. DIAMOND
Vice-President and Treasurer

SAUL C. GUZY
Vice-President and Assistant Secretary

AL KLEIN
Vice-President
Assistant Secretary and Controller

HARRY H. GROSS
Vice-President
Supervisor of Store Operations

MORTON BEHREND
Vice-President
General Merchandise Manager, Soft Lines

SANFORD S. JAFFE
Vice-President
Director of Polly Perrey Division

MAURICE N. JAFFE
Vice-President
Director of Polly Perrey Division

B. ROBERT ROSTHAL
Vice-President
Supervisor of Lessee Operations

MAURICE MANTEL
Vice-President
Director of Construction and Maintenance

DAVID M. DIAMOND
Vice-President

EMANUEL MANGEL
Assistant Treasurer and Assistant Secretary

MAX WEINREICH
Secretary

COUNSEL	*Cole & Deitz, New York, N. Y.*
AUDITORS	*S. D. Leidesdorf & Co., New York, N. Y.*
TRANSFER AGENT	*Morgan Guaranty Trust Company of New York* *140 Broadway, New York 15, N. Y.*
REGISTRAR	*Manufacturers Hanover Trust Company* *55 Broad Street, New York 15, N. Y.*

157 STORE AND LEASED DEPARTMENT LOCATIONS

ALABAMA
Anniston
Birmingham
Decatur
Florence
Huntsville (2)
Mobile (2)
Montgomery
Prichard
Selma
Tuscaloosa

ARIZONA
Phoenix

ARKANSAS
Fayetteville
Fort Smith
Hot Springs
Little Rock
Pine Bluff (2)

CONNECTICUT
Bridgeport
South Norwalk

DELAWARE
Wilmington

FLORIDA
Fort Lauderdale
Jacksonville
Key West
Miami (2)
Orlando
Panama City
Pensacola (3)
Pompano Beach
Tallahassee
Tampa

GEORGIA
Atlanta
Augusta
Columbus
Macon
Savannah
Thomasville
Valdosta

ILLINOIS
Danville
Quincy

INDIANA
Columbus
Evansville
Gary
Indianapolis (2)
Lafayette
Marion
Michigan City
South Bend

IOWA
Clinton
Des Moines

KENTUCKY
Paducah
Shively

LOUISIANA
Baton Rouge (2)
Crowley
Lafayette
New Iberia
New Orleans
Opelousas

MARYLAND
Salisbury

MASSACHUSETTS
Lawrence

MICHIGAN
Adrian
Battle Creek
Benton Harbor
Detroit (5)
Flint
Jackson
Lansing
Saginaw

MINNESOTA
St. Paul

MISSISSIPPI
Greenville
Jackson
Meridian
Natchez

MISSOURI
St. Louis (3)
Springfield

NEW JERSEY
Pennsauken
Shrewsbury

NEW MEXICO
Hobbs
Santa Fe

NEW YORK
Brooklyn
Kingston
Middletown
Newburgh (2)
Peekskill (2)
Rochester
Syracuse (2)
Wappinger Falls

NORTH CAROLINA
Asheville
Elizabeth City
Greensboro
Raleigh

OHIO
Akron
Canton (2)
Columbus
Dayton
Lancaster
Zanesville

OKLAHOMA
Tulsa

PENNSYLVANIA
Altoona
Chester
Clifton Heights
Downington
Horsham
Johnstown
Philadelphia
Scranton

SOUTH CAROLINA
Aiken
Charleston
Columbia
Greenville
Greenwood
Spartanburg

TENNESSEE
Chattanooga
Jackson
Johnson City
Memphis

TEXAS
Amarillo
Baytown
Beaumont
Big Spring
Borger
Brownwood
Corpus Christi (2)
Dallas (2)
Galveston
Harlingen
Houston (2)
McAllen
Midland
San Antonio
Texarkana

UTAH
Murray City
Salt Lake City

WEST VIRGINIA
Charleston
Huntington

WISCONSIN
Green Bay
Madison
Oshkosh

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